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SUBJECT: AMBASSADOR DISCUSSES AGOA WITH AMCHAM

¶1. (SBU) Summary: On June 18, the Ambassador urged the members of AMCHAM to lobby Malagasy political leaders to take concrete steps to reinstall constitutional order to preserve AGOA benefits, protect U.S. investments, and save tens of thousands of jobs. AMCHAM explained that it has already begun lobbying the transition authority and intends to lobby the USG as well. Business owners expressed concern that, due to their lengthy production cycles, they will have to begin reducing production and closing their doors as early as mid-July if AGOA renewal remained uncertain. The AmCham is still acting in schizophrenic fashion, diluting lobbying appropriately directed at the Malagasy political process with unhelpful, even counterproductive efforts to sway President Obama and the USG with sentimental, irrelevant arguments. End summary.

¶2. (SBU) The Ambassador addressed approximately fifty members of the American Chamber of Commerce of Madagascar (AMCHAM) June 18 regarding the political situation and the status of Madagascar's eligibility for African Growth and Opportunity Act (AGOA) trade benefits. At least twenty percent of AMCHAM members, including several U.S. investors, are involved in the garment trade. The Ambassador explained that Madagascar, which is the second largest exporter of apparel to the U.S. under AGOA, risks losing these benefits if it can not show concrete progress toward re-establishing the rule of law, such as agreeing on and starting to implement a transition charter and roadmap to elections, before the annual eligibility decisions are finalized by President Obama in December. He encouraged the members to use their connections to lobby the Malagasy political leaders from all factions to agree as soon as possible to a consensual transition government that would be able to produce credible elections.

¶3. (SBU) AMCHAM President Robert Strauss explained that AMCHAM, in conjunction with other local commercial chambers, had already begun to lobby members of the transition authority (HAT), including the minister of economy and the economic commission. On June 15, AMCHAM, the export processing zone association, and two other local chambers placed advertisements in the local press, calling on the wisdom of Malagasy leaders to take responsibility to resolve the political dilemma in order to save AGOA (septel). The article pointed out that 100,000 direct jobs and sixty percent of Madagascar's foreign exchange earned through exports were at stake. According to official Malagasy data, total garment exports fell by 17 percent in the first quarter of 2009, compared with the same time period in 2008. Embassy data on garment exports to the U.S. under AGOA indicates that such exports fell by only 4 percent in the first quarter of 2009, compared with 2008, but dropped by 31 percent in April-May 2009 compared with the same period in 2008.

14. (SBU) Strauss explained that AMCHAM also intends to support a petition by Malagasy workers to urge President Obama to preserve AGOA. The Ambassador and the CEO of an American garment joint-venture, Salim Ismail, argued that AMCHAM and others instead should focus their pressure on the Malagasy political leaders, rather than dividing their efforts and giving the Malagasy a scapegoat, i.e. the U.S., to blame for the consequences of their own actions. The Ambassador reiterated that the decision to renew AGOA must/must include a consideration of the U.S. legal criteria, including whether or not the country is making progress toward implementing the rule of law, although other factors would also be taken into account.

15. (SBU) Factory owners explained that they were already losing orders due to the uncertainty of AGOA renewal and that this situation would become critical in three weeks, by mid-July. If AGOA is withdrawn, goods must enter the U.S. by December 31 to be duty-free, which means shipping from Madagascar by late October. By mid-July, orders begin coming in for shipment in October, because the companies need three months to order and receive their inputs and complete production. Business owners, who have already laid off a large percentage of their work force, will be forced to begin closing operations in mid-July if they start to lose additional orders. They claim that if AGOA is lost, they will not return to Madagascar (particularly if the third country fabric provision expires in 2012.) The partially U.S.-owned company Mazava has already begun shifting business to Tanzania, rather than expanding in Madagascar, and others are following suit. (Comment: the international financial crisis and resulting lack of demand for garment exports, the appreciation of the Malagasy currency over the past year, and the political instability since January have all come crashing down on the Malagasy garment industry. The loss of AGOA would be the straw that broke the camel's back. End comment.)

16. (SBU) About half of the garments produced in Madagascar are for the U.S. market and about half for the European market. Companies that produce for both markets will lose the economies of scale that they depend on to keep production costs low if they lose the U.S. market and thus may not be able to remain open if they are reduced to serving only the European market. The loss of AGOA would hurt not only garment factories, but would also have a ripple effect on logistics, shipping, and other periphery service providers. According to the director of the U.S. logistics firm Expeditors International, its business in Madagascar is already down by fifty percent.

17. (SBU) Comment: Although some members of the transition authority (HAT) and Zafy and Ravalomanana's political movements are understanding of and sympathetic to company and worker concerns about losing AGOA, none of them are in a position to ensure its survival alone: a return to constitutionality will require all of them to work together. If there is not political progress before year-end and AGOA is lost, they will all point fingers at each other, but the blame for the loss risks being placed in the lap of the USG. Responding to a question about the negative impact of a loss of AGOA eligibility on US-Malagasy relations, the Ambassador said he would continue to do his utmost to promote a political solution that will protect AGOA eligibility. If that fails, it will be his responsibility to explain to the Malagasy why America's gift of AGOA had been squandered by their irresponsible political leaders. He closed on an optimistic note by restating his hope and desire that the political solution will prevent this from happening. End comment.

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